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# Audit Report



DOD FINANCIAL AND FEEDER SYSTEMS  
COMPLIANCE PROCESS

Report No. D-2002-044

January 29, 2002

Office of the Inspector General  
Department of Defense

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### **Acronyms**

DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
FMIP	Financial Management Improvement Plan
GAO	General Accounting Office
JFMIP	Joint Financial Management Improvement Program
ODO	Other Defense Organization
OMB	Office of Management and Budget
OUSD (C)	Office of Under Secretary of Defense (Comptroller)
USD (C)	Under Secretary of Defense (Comptroller)



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2885

January 29, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Audit Report on DoD Financial and Feeder Systems Compliance Process  
(Report No. D-2002-044)

We are providing this report for information and use. We considered management comments on a draft of this report when preparing the final report.

The Under Secretary of Defense (Comptroller) and Director of Systems Integration, Defense Finance and Accounting Service comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Kathryn M. Truex at (703) 604-9139 (DSN 664-9139) (kmtruex@dodig.osd.mil), or Mr. Scott S. Brittingham at (703) 604-9151 (DSN 664-9151) (sbrittingham@dodig.osd.mil). See Appendix D for the report distribution. Audit team members are listed inside the back cover.

*David K. Steensma*  
David K. Steensma  
Acting Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. D-2002-044  
(Project No. D2001FG-0085)

January 29, 2002

### DoD Financial and Feeder Systems Compliance Process

#### Executive Summary

**Introduction.** The Federal Financial Management Improvement Act of 1996 mandates that financial management systems comply with Federal financial system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. Within DoD, those three mandates are generally referred to as Federal financial management systems requirements. In January 2001, DoD identified 187 critical systems and initiatives, and estimated that it will cost approximately \$3.7 billion to correct system deficiencies and result in systems that are compliant with Federal financial management systems requirements.

On January 5, 2001, the Under Secretary of Defense (Comptroller) issued a memorandum formally approving the DoD Financial and Feeder Systems Compliance Process for implementation within the DoD. The DoD Financial and Feeder Systems Compliance Process goal is to ensure compliance with applicable Federal financial management systems requirements and enhance system's capabilities to provide timely and accurate financial data to senior DoD managers to aid decision making. On July 19, 2001, the Secretary of Defense established the DoD Financial Management Modernization Program and identified reliable and timely financial management information to make effective business decisions as one of his highest priorities. Under this direction, a DoD-wide blue print will be developed that prescribes how DoD financial and non-financial feeder systems will interact. The National Defense Authorization Act for FY 2002 mandates that DoD establish a DoD financial and feeder systems compliance process and the Financial Management Modernization Executive Committee. The Under Secretary of Defense (Comptroller) issued a memorandum on October 12, 2001, to formally establish this Financial Management Modernization Executive Committee to oversee the modernization effort. This committee will also provide oversight to the DoD Financial and Feeder Systems Compliance Process.

**Objectives.** Our objective was to determine the effectiveness of the DoD Financial and Feeder Systems Compliance Process to address compliance with applicable Federal financial management systems requirements. Specifically, we determined whether the DoD Financial and Feeder Systems Compliance Process would achieve compliance of both individual and integrated systems.

**Results.** The DoD Financial and Feeder Systems Compliance Process had not been fully implemented throughout DoD. The Air Force and the Defense Finance and Accounting Service had completed substantial work in implementing their own Year 2000-like compliance processes. However, the Army, Navy, Air Force, Defense Finance and Accounting Service, Defense Logistics Agency, and 12 Other Defense

organizations needed to do more work toward implementing the DoD Financial and Feeder Systems Compliance Process. The Army, Navy, Air Force, Defense Finance and Accounting Service, and Defense Logistics Agency:

- had started but had not completed data mapping, and
- had not completed a critical inventory list.

The Army, Navy, Air Force, and Defense Finance and Accounting Service had issued guidance. We contacted nine Other Defense Organizations outside the DoD Intelligence community and three inside the DoD Intelligence community. Of the nine Other Defense Organizations, personnel from four were not aware of the DoD Financial and Feeder Systems Compliance Process, and five stated that their agency was aware of the memo, but only one stated that the memo had been implemented. This occurred because the Under Secretary of Defense (Comptroller) did not have sufficient authority over the Military Departments and Defense agencies to effectively implement the DoD Compliance Process. As a result, progress toward attaining compliance with Federal and DoD financial management systems requirements had been slow, although new legislation for FY 2002 and DoD initiatives are intended to provide more effective management oversight in the future. For details of the audit results, see the Finding section of this report.

**Summary of Recommendations.** We recommend that the Under Secretary of Defense (Comptroller) institutionalize the compliance process established under the National Defense Authorization Act for FY 2002 in an appropriate DoD issuance. We also recommend the Under Secretary of Defense (Comptroller) establish and implement mechanisms to appropriately monitor the compliance process established under the National Defense Authorization Act for FY 2002. Additionally, we recommend that the Under Secretary of Defense (Comptroller) provide a clear definition of criticality and ensure that adequate guidance for compliance of commercial software is provided. We recommend that the Director, Defense Finance and Accounting Service provide detailed coverage of requirements for data standardization and general controls in "A Guide to Federal Requirements for Financial Management Systems."

**Management Comments.** The Acting Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) agreed to formalize the Compliance Process in a DoD issuance, establish a data repository to monitor the Compliance Process, and provide the appropriate scope and language for the systems certification. The Office of the Under Secretary partially concurred to providing a clear definition of criticality. The Office of the Under Secretary also agreed to provide commercial software guidance. The Director of Systems Integration, Defense Finance and Accounting Service stated that they will provide detailed coverage of data standardization and general control requirements in "A Guide to Federal Requirements for Financial Management Systems." A discussion of the management comments is in the Finding section of the report, and the complete text is in the Management Comments section.

**Audit Response.** The Under Secretary of Defense (Comptroller) and the Director of Systems Integration, Defense Finance and Accounting Service were responsive to the recommendations. Therefore, no further comments are required.

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## Background

This audit was conducted pursuant to the responsibility of the Inspector General, DoD, under the Federal Financial Management Improvement Act of 1996 to assess the progress made toward substantial system compliance with applicable guidelines and standards. This report discusses the effectiveness of the DoD Financial and Feeder Systems Compliance Process (DoD Compliance Process).

**History of DoD Financial Management Systems.** DoD has had long standing financial management problems chronicled by the General Accounting Office (GAO) and Inspector General, DoD, audit reports that document systemic system deficiencies. DoD acknowledged that their financial management systems are flawed with decade-old problems and lack the capability to provide reliable and timely information to DoD decision-makers. Also, DoD acknowledged that most systems do not comply with Federal financial management systems requirements.

**Responsibility for DoD Financial Management Systems.** The Under Secretary of Defense (Comptroller) [USD (C)] is responsible for the development, oversight, and implementation of DoD financial reporting policy. The Defense Finance and Accounting Service (DFAS), under the authority of the USD (C), owns and operates 56 of the DoD accounting and finance systems and initiatives identified in the FY 2000 Financial Management Improvement Plan (FMIP). DFAS is responsible for implementing, modifying, and maintaining those systems. DFAS is also responsible for providing the Military Departments and Defense agencies (DoD Components) with consultative guidance and is jointly responsible for ensuring that DoD Component systems interact effectively with DFAS systems. DoD Components are responsible for implementing, modifying, and maintaining the feeder systems that provide significant amounts of data to the DFAS systems.

**DoD Financial and Feeder System Compliance Process.** In 2000, the Office of Under Secretary of Defense (Comptroller) [OUSD (C)] began efforts to institute a Year 2000-like management approach to the DoD Compliance Process<sup>1</sup>. On January 5, 2001, the USD (C) issued a memorandum formally approving the DoD Compliance Process for implementation within DoD. The DoD Compliance Process goal is to ensure that critical financial and feeder systems are compliant with applicable Federal financial management systems requirements. The DoD Compliance Process will enhance the system's capabilities to provide timely and accurate financial data to aid decision making. The DoD Compliance Process also identifies individual roles and responsibilities of the Senior Financial Management Oversight Council (Council) and DoD Components.

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<sup>1</sup>Inspector General, DoD, Report No. D-2001-175, "Application of Year 2000 Lessons Learned," August 22, 2001.



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**Senior Financial Management Oversight Council.** The memorandum formally approved and established the Council as the governing body of the DoD Compliance Process. The memorandum also establishes the USD (C) as Council Chair, Council membership, and its responsibilities, to include overseeing a working group and verifying that exit criteria for each system has been completed.

**DoD Components.** DoD Components are responsible for ensuring that their systems comply with applicable Federal and DoD financial management requirements. DoD Components shall implement the five phases of the DoD Compliance Process and develop corresponding funding plans for each critical accounting, finance and feeder system. DoD Components are also responsible for obtaining independent system validations from the Inspector General, DoD; a consulting firm; or their respective audit agency.

**The Five Phases.** The DoD Compliance Process (modeled after the Year 2000 process) consists of five phases with defined exit criteria. The five phases are Awareness, Evaluation, Renovation, Validation, and Compliance. The defined exit criteria should be met before a system can advance from one phase to the next. The DoD Compliance Process states that the DFAS "A Guide to Federal Requirements for Financial Management Systems<sup>2</sup>" (Blue Book) shall be the guidance a system is evaluated against prior to entering the next phase. See Appendix B for a detailed discussion of the five phases of the DoD Compliance Process.

**Blue Book.** The DoD Compliance Process establishes the Blue Book as the primary source of guidance in determining system compliance. The Blue Book is an extensive compilation of Federal and DoD requirements applicable to the DoD finance, accounting and feeder systems. The Blue Book contains numerous requirements issued by Office of Management and Budget (OMB), GAO, Department of Treasury, Joint Financial Management Improvement Program (JFMIP), and DoD. The Blue Book is organized into 15 major categories of requirements including general ledger, financial reporting, inventory, and travel. As such, the Blue Book is a valuable guide that can be used to assist systems managers in determining whether their systems substantially comply with Federal financial management systems requirements.

**DoD Financial Management Modernization Program.** On June 27, 2001, DoD requested \$100 million of FY 2002 funds for the development of a DoD-wide management systems enterprise architecture and the definition of standard data requirements. On July 19, 2001, the Secretary of Defense issued a memorandum establishing the DoD Financial Management Modernization Program. The requested \$100 million is to fund the DoD Financial Management Modernization Program efforts. The USD (C) in coordination with the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Chief Information Officer shall provide policy and oversee the execution of the program. The Program Management Office will develop a DoD-wide blue print, an enterprise architecture, which prescribes how DoD financial and

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<sup>2</sup>Version 3, June 2001.

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non-financial feeder systems will interact. The DoD Components shall be accountable to the Secretary of Defense for the results of their business operations and their financial management systems

**Financial Management Modernization Executive Committee.** On October 2, 2001, the Federal bill, S.1438 as passed by the Senate, authorized appropriations for military activities for FY 2002. The S.1438 section 1007 mandated the establishment of a Financial Management Modernization Executive Committee to establish a financial and feeder systems compliance process. Subsequently, on October 12, 2001, the USD (C) issued a memorandum formally establishing the Financial Management Modernization Executive Committee as specified in the July 19, 2001, Secretary of Defense memorandum. The Financial Management Modernization Executive Committee charter supercedes the Senior Financial Management Oversight Council charter.

On December 28, 2001, Federal Bill S.1438 was signed into law as the National Defense Authorization Act for FY 2002. The National Defense Authorization Act for FY 2002 mandates that DoD establish the Financial Management Modernization Executive Committee. This committee shall establish a financial and feeder systems compliance process (Authorization Act Compliance Process). Additionally, this committee should develop, monitor, and supervise a management plan for implementing the Authorization Act Compliance Process. In addition, this committee must ensure the development and maintenance of a DoD enterprise architecture in conjunction with the compliance process efforts. This committee will be accountable to the Senior Executive Council that includes, among others, the Secretary and Deputy Secretary of Defense.

**Financial Management Improvement Plan.** In January 2001, the USD (C) issued the FMIP to meet the requirements of the National Defense Authorization Act for FY 1998. The FMIP identifies DoD critical financial systems and initiatives intended to improve the financial data provided by critical feeder systems, such as, the DoD Compliance Process. The DoD owns one critical system initiative reported in the FMIP. The Army, Navy, Air Force, DFAS, Defense Logistics Agency (DLA), and Other Defense Organizations (ODO) own 24, 34, 46, 57, 9, and 16 systems and initiatives reported in the FMIP, respectively. According to the FMIP, it will cost approximately \$3.7 billion to make the critical systems compliant by 2003.

## Objectives

Our overall objective was to determine the effectiveness of the DoD Financial and Feeder Systems Compliance Process to address compliance with applicable Federal financial management systems requirements. Specifically, the objective was to determine whether the DoD Financial and Feeder Systems Compliance Process would achieve compliance of both individual and integrated systems. See Appendix A for a discussion of the audit scope and methodology and prior coverage related to the audit objectives.

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## **Status of the DoD Financial and Feeder Systems Compliance Process**

The DoD Financial and Feeder Systems Compliance Process had not been fully implemented throughout DoD. The Air Force and the DFAS had completed substantial work in implementing their own Year 2000-like compliance processes. However, the Army, Navy, Air Force, DFAS, DLA, and 12 ODOs needed to do more work toward implementing the DoD Compliance Process. This occurred because the USD (C):

- had not addressed other initiatives that logically should be completed prior to the successful implementation of a compliance process,
- did not have sufficient authority over DoD Components to effectively implement a compliance process,
- did not have the mechanisms in place to adequately monitor a compliance process implementation, and
- had not established sufficient guidance to ensure adequate reviews of financial management systems are performed.

Additionally, some DoD Components had shown a lack of initiative in implementing the DoD Financial and Feeder Systems Compliance Process. As a result, progress toward attaining compliance with Federal and DoD financial management systems requirements had been slow, although new legislation and DoD initiatives are intended to provide more effective management oversight in the future.

## **National Defense Authorization Act for FY 2002**

The enactment of the National Defense Authorization Act for FY 2002 establishes a DoD financial and feeder systems compliance process (Authorization Act Compliance Process) as law and will supercede the prior DoD Compliance Process. This report focuses on the issues identified during our audit of the DoD Compliance Process. Those issues should be addressed in the development and implementation of the Authorization Act Compliance Process.

## **DoD Compliance Process Status**

The DoD Compliance Process had not been implemented throughout DoD. In January 2001, DoD identified 187 critical systems and initiatives. DoD

estimated that it will cost approximately \$3.7 billion to correct system deficiencies and result in systems compliant with Federal financial management systems requirements. The Army, Navy, Air Force, DFAS, and DLA:

- had started but had not completed data mapping, and
- had not completed a critical inventory list.

The Army, Navy, Air Force, and DFAS had issued guidance. Data mapping, a complete critical inventory list, and guidance are key to the successful implementation of a compliance process. The USD (C), GAO, and Inspector General, DoD, consider data mapping to be an important step in a compliance process. Although data mapping is not a specific exit criteria, it is the logical starting place to verify that a complete critical inventory list can be identified. Data mapping is documenting the flow of financial information from point of original entry to eventual reporting on the financial statements. Data mapping should be completed early in the DoD Compliance Process to verify that all critical and non-critical systems involved in the flow of data from transaction origination to presentation on the financial statements can be identified. Data mapping also helps verify that DoD Components have appropriately identified and considered sources of financial information and their impact on overall data accuracy. Following the completion of data mapping, a DoD Component will be able to establish a complete critical inventory list, the first exit criteria in the Awareness phase. Additionally, DoD Components that issued guidance had progressed further in implementing a compliance process than those DoD Components that have not.

The Navy, Air Force, and DFAS had independently established their own Year 2000-like processes for determining compliance with Federal financial management system requirements prior to the development of the DoD Compliance Process. The Air Force and DFAS had completed substantial work in implementing their respective Year 2000-like compliance processes. However, the Army, Navy, Air Force, DFAS, DLA, and the 12 ODOs contacted needed to do more work toward implementing the DoD Compliance Process because none of those DoD Components have completed data mapping or a critical inventory list.

DoD Component status and key measures of success for implementing a compliance process are presented in the table below.

Compliance Process Measures					
Key Measures	Air Force	DFAS	Army	Navy	DLA
Started data mapping systems	Yes	Yes	Yes	Yes	Yes
Completed data mapping systems	No	No	No	No	No
Completed critical inventory list	No	No	No	No	No
Issued guidance	Yes	Yes	Yes	Yes	No

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**Air Force.** Air Force completed substantial work in implementing its Year 2000-like compliance process prior to the development of the DoD Compliance Process. The Air Force reported its critical inventory list to include 23 legacy, 21 ongoing, and 6 systems under development. However, the Air Force did not complete data mapping. Until Air Force has completed data mapping, the critical systems list may not be all-inclusive.

The Air Force issued guidance for achieving system compliance with Federal financial management system requirements and established individual milestones for its systems with the overall milestone of September 2003. The Air Force categorized each system into one of five Air Force phases. The five Air Force phases are awareness, evaluation, renovation, validation, and compliance. The Air Force process varies from DoD because the Air Force does not certify substantial compliance of a system until successful completion of a validation audit. The DoD Compliance Process requires certification of the system prior to the request for validation. The Air Force should coordinate with the OUSD (C) to address the differences in the two processes to avoid confusion regarding which process they are referring to.

The Air Force progress to achieve compliance can be partially attributed to the implementation of a team to oversee their process, Air Force Audit Agency or contractor<sup>3</sup> assistance, a reporting tool to track systems progress, and briefings keeping management informed. The Air Force is using the Blue Book as guidance to determine compliance with the Federal financial management systems requirements and supplemented the Blue Book with specific requirements for system controls. The Air Force also established a web-based encyclopedia containing system information that includes interfaces, feeder systems, migration paths, and infrastructure. The Air Force is reporting three systems in its validation phase. Air Force Audit Agency is performing two of the validation audits and has contracted out the third.

**Defense Finance and Accounting Service.** DFAS completed substantial work in implementing its own Year 2000-like process prior to the development of the DoD Compliance Process. DFAS is responsible for the compliance of 20 DFAS systems and jointly responsible for 3 other systems within DoD. However, DFAS did not complete data mapping. Until DFAS has completed data mapping, the critical systems list may not be all-inclusive.

In July 1998, DFAS developed guidance to determine compliance of its critical systems with Federal financial management system requirements. The DFAS process evolved into five phases and was commonly referred to as the DFAS Compliance Assessment Methodology. The five DFAS phases were awareness, evaluation, renovation, validation, and compliance. In May 2001, DFAS formally established the Systems Compliance Review Board Charter to review

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<sup>3</sup>The Air Force contracted with Grant Thornton and Associates to map its feeder systems to its general fund balance sheet line items. The Air Force also contracted with Logicon to assist in the identification of its financial systems inventory.

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systems compliance and recommend certification to the DFAS Director. Within the charter, DFAS included an outline of the revised DFAS Compliance Process that was updated to be in alignment with the DoD Compliance Process.

The DFAS progress to achieve compliance can be partially attributed to the use of a spreadsheet to track its systems status, checkpoints<sup>4</sup>, points of contact, and milestones for each system. The DFAS Test Integration Data Repository maintains requirement profiles, test scripts and results, data collection plans, and is accessible via the World Wide Web. Additionally, DFAS contracted with KPMG Consulting and Arthur Andersen LLP to provide assistance in performing compliance assessments. Management is also provided monthly briefings on DFAS system efforts. As of May 2001, the DFAS Director issued a memorandum to the Council certifying that one system, Defense Industrial Financial Management System, is compliant. DFAS set an overall milestone of FY 2003 for its systems to be certified compliant.

**Army.** The Army did not independently establish a Year 2000-like process for achieving compliance with Federal financial management systems requirements. The Army initiated data mapping and compiled a list of critical systems for submission to the FMIP. However, Army personnel stated that mapping efforts were halted because the process was considered time consuming and would require an extensive use of resources. Until the Army has completed data mapping, the critical inventory list may not be all-inclusive.

On May 17, 2001, the Army Audit Agency and the Office of the Deputy Assistant Secretary of the Army (Financial Operations) entered into a memorandum of agreement defining their responsibilities for each phase of the DoD Compliance Process. On June 21, 2001, the Army issued memorandums to its components to provide awareness of the DoD Compliance Process and to identify 13 of its critical systems. The memorandums also identified the Army Audit Agency as the independent validation provider. The Chief Information Officer Executive Board was identified as the senior body to address Army-wide compliance issues. Army personnel reported that the Corps of Engineers Financial Management System was ready for validation.

**Navy.** The Navy established a Year 2000-like process that incorporates several initiatives to include:

- Office of Secretary of Defense Implementation Strategies,
- business process reengineering, and
- compliance with Federal financial management systems requirements.

The Navy plans to transition this process to coincide with the DoD Compliance Process but did not provide a milestone for this transition. The Navy

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<sup>4</sup>Checkpoints outline the DFAS compliance assessment process and are steps to be completed that identify the responsible organization, associated deliverables, and recipients of those deliverables.

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established 13 non-financial feeder teams, including representatives from various audit agencies, 11 of which were aligned with the Office of Secretary of Defense Implementation Strategies. The 13 non-financial feeder teams were established to review Navy business practices and streamline those processes and to achieve compliance with Federal financial management systems requirements. We were unable to determine the success of those efforts to achieve compliance with Federal financial management systems requirements. On February 14, 2001, the Navy issued a memorandum to establish an awareness of the DoD Compliance Process. On February 23, 2001, the Navy also issued a memorandum requesting a complete systems inventory by each major command. According to Navy personnel, this effort has been substantially completed. The Navy did not report that any systems were ready for validation.

**Defense Logistics Agency.** In January 2001, DLA issued a memorandum proposing a strategy to implement the DoD Compliance Process. However, no DLA implementation guidance had been issued. DLA did not complete data mapping or its critical inventory list. DLA personnel stated that a critical inventory list was submitted for the FMIP. However, the list did not include systems that would be critical according to the DoD Compliance Process. DLA is working with their contractor, Deloitte and Touche, to identify critical financial and feeder systems but is focusing its efforts on the business system modernization initiative. This initiative will replace many existing DLA systems and is intended to correct financial management deficiencies that exist within its business area. DLA did not report any systems ready for validation.

**Other Defense Organizations.** The sample of nine ODOs outside the DoD Intelligence community and three inside the DoD Intelligence community have made minimal progress in implementing the DoD Compliance Process. We contacted nine ODOs, outside of the DoD Intelligence community, to determine whether they were aware of the DoD Compliance Process. Five ODOs had DoD imposed reporting requirements, and seven ODOs list systems ownership in the FMIP. Of the personnel contacted from the nine ODOs, four were not aware of the DoD Compliance Process, and five stated that their agency was aware of the memo, but only one stated that the memo had been implemented. For details of the specific ODOs, see Appendix C of this report.

Additionally, we contacted three ODOs within the DoD Intelligence community. Two of those DoD Intelligence agencies list ownership of one critical system in the FMIP. Personnel from the National Imagery and Mapping Agency, which reports ownership of one critical system in the FMIP, were not aware of the DoD Compliance Process. The two additional DoD Intelligence agencies need to do more work toward implementing the DoD Compliance Process. However, we do not discuss details of the results of these two DoD Intelligence agencies because the information is classified.

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## DoD Compliance Process Issues

DoD acknowledges that flaws still exist within its financial management framework. Although the implementation of a compliance process should resolve some of those problems, the success of the DoD Compliance Process had been affected by other factors. Specifically, the USD (C):

- had not addressed other initiatives that logically should be completed prior to the successful implementation of a compliance process,
- did not have sufficient authority over DoD Components to effectively implement a compliance process,
- did not have the mechanisms in place to adequately monitor a compliance process implementation, and
- had not established sufficient guidance to ensure adequate reviews of financial management systems are performed.

**Other Initiatives.** The January 5, 2001, memorandum acknowledges that DoD Components must execute the DoD Compliance Process in concert with other initiatives. However, some of those initiatives logically precede the effective implementation of a compliance process and include systems integration and standardization efforts and the DoD-wide enterprise architecture.

**Friedman Report.** The Secretary of Defense contracted with the Institute for Defense Analyses to conduct a study and recommend a strategy for financial improvements within DoD. The study resulted in the report “Transforming Department of Defense Financial Management, a Strategy for Change,” April 13, 2001, also known as the Friedman Report. The report indicated that many positive projects are underway within DoD. However, those projects are narrow in focus, have insufficient leadership, and are not part of an overall integrated DoD-wide strategy. The report recommended a structural change within the DoD financial framework by developing standard integrated systems and mandating the standardization of finance, accounting and feeder systems. The July 19, 2001, Secretary of Defense memorandum; the October 12, 2001, USD (C) memorandum; and the National Defense Authorization Act for FY 2002 have addressed some of the Friedman report recommendations.

**Enterprise Architecture.** GAO reported<sup>5</sup> that DoD does not have a DoD-wide financial management enterprise architecture. An enterprise architecture provides an operational and technological view of an organization’s current and targeted environment. The enterprise architecture also provides a roadmap between the two environments. GAO recommended that DoD immediately designate DoD financial management modernization as a

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<sup>5</sup>GAO Report 01-525, Information Technology, Architecture Needed to Guide Modernization of DOD’s Financial Operations, May 17, 2001.



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departmental priority and implement an enterprise architecture. On June 27, 2001, DoD requested \$100 million for development of a DoD-wide management systems enterprise architecture. On July 19, 2001, the Secretary of Defense established the DoD Financial Management Modernization Program to develop a DoD-wide blue print (an enterprise architecture) that prescribes how DoD financial and non-financial feeder systems will interact. Subsequently, on October 12, 2001, the USD (C) issued a memorandum establishing the Financial Management Modernization Executive Committee as the advisory body to the USD (C) for financial management modernization. Additionally, on November 29, 2001, a Request for Quotations was issued for the development of a DoD-wide Financial Management Enterprise Architecture for the OUSD (C).

**Direct Authority.** The USD (C) did not have sufficient authority to effectively implement the DoD Compliance Process. GAO reported<sup>6</sup> that DoD Components have been directed to follow USD (C) guidance. However, USD (C), as the Council Chair, lacked authority over the DoD Component feeder systems. Three later actions, the July 19, 2001, Secretary of Defense memorandum; the October 12, 2001, USD (C) memorandum; and the National Defense Authorization Act for FY 2002 have largely addressed GAO concerns.

The July 19, 2001, the Secretary of Defense memorandum established the DoD Financial Management Modernization Program, giving the USD (C) responsibility for the overall direction of financial management reform within DoD. Additionally, the memorandum established a Program Management Office that shall report to the USD (C). The memorandum also states that DoD Components will be accountable to the Secretary of Defense for the results of their business operations and their financial management systems. On October 2, 2001, the Senate passed, the Federal Bill, S.1438 mandating the establishment of the Financial Management Modernization Executive Committee with the USD (C) as its chair. The Committee will be accountable to the Senior Executive Council that includes the Secretary and Deputy Secretary of Defense. The Committee's accountability to the Senior Executive Council should also alleviate most of the GAO concerns on the USD (C) lack of authority over DoD Components. Anticipating that the Senate provision would become law, the USD (C) issued the October 12, 2001, memorandum formally establishing the Committee and superceding the Council. On December 28, 2001, the Federal Bill, S.1438 was signed into law as the National Defense Authorization Act for FY 2002. However, establishing the Authorization Act Compliance Process in a DoD issuance should also provide the authority necessary for implementation.

**Monitoring a Compliance Process.** USD (C) did not have the mechanisms in place to adequately monitor the implementation of a compliance process. Specifically, the USD (C) had not implemented a systems database, and DoD Components have requested information on its status to track other systems not

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<sup>6</sup>GAO Report 01-525, Information Technology, "Architecture Needed to Guide Modernization of DOD's Financial Operations," May 17, 2001.

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within their purview. The USD (C) had also not defined the appropriate language for a DoD Component to certify system compliance and verify consistency in the scope of a system certification.

**Systems Database.** USD (C) personnel stated that a data call will be requested from DoD Components to populate a system database with information such as system status, milestones, interfaces, and funding. The database is intended to blend information reporting requirements and track systems in their progress. Until the system database is populated, the USD (C) will not be able to monitor and control systems progressing through each of the five phases.

DoD Components also remain unaware of the compliance status for systems not in their purview, but affecting their business area. For example, the Standard Procurement System and the Defense Travel System will impact the compliance of other DoD Component business areas. However, the compliance status of those systems is unknown to some DoD Components. Overall, compliance for a business area cannot be determined until all systems composing the business area are compliant. Once the systems database is available, DoD Components should have access to the compliance status of other DoD systems that affect their business areas.

**Certification.** The USD (C) had not defined appropriate language for a system certification to be submitted as part of the Renovation phase exit criteria. The DoD Compliance Process goal is to ensure that financial and feeder systems (both from a single systems and integrated systems perspectives) comply with Federal financial management systems requirements. However, the DoD Compliance Process Renovation phase requires DoD Components to certify that their systems comply with all identified requirements based on the latest edition of the Blue Book. Although the Blue Book is an extensive compilation of requirements, it does not necessarily include all Federal requirements. DoD Components should use the Blue Book as a tool in determining compliance, but are also responsible for knowing all laws and regulations applicable to their systems, which may not be included in the Blue Book. Therefore, DoD Components should certify compliance based on the applicable requirements identified in the latest edition of the Blue Book and other relevant requirements as necessary. Also, certification of the application system alone does not consider erroneous data streams from feeder systems, or systems controls external to the application. Without standardized language identifying the scope of the certification, DoD Components may certify that the application software is compliant as a stand-alone system and not in an installed or integrated environment.

**Sufficiency of Guidance.** The USD (C) had not established adequate guidance for defining what constitutes a critical system. In addition, the Blue Book does not reference sufficient criteria to ensure an adequate financial management system review is performed. Also, the DoD Compliance Process incorrectly links compliance with Federal financial management systems requirements to JFMIP approved software. Adequate guidance should be provided for the DoD Compliance Process to be successful.

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**Critical Definition.** The DoD Compliance Process definition of a critical financial management system remains unclear. The DoD Compliance Process conceptually defines a critical financial management system as providing information that is materially important to entity-wide financial management, control and reporting. Criticality is based on the concept that a system provides information that is important in producing reliable financial reports, ensuring that the DoD missions are met, or assisting decision makers. The DoD Compliance Process states that ascertaining the criticality of a system is somewhat judgmental; therefore, it provides a materiality definition. For a financial statement line item that is greater than, or equal to, 3 percent of total entity assets, the reporting entity shall deem critical any system that is the source of values equal to, or greater than, 10 percent of the total amount reported on the applicable financial statement line item. This materiality definition is to be used as a mechanism for determining criticality by quantifying critical systems to achieve consistency. When defining the criticality of a system, there is an uncertainty as to the use of the conceptual or the materiality definition.

The DoD Compliance Process states that the DoD Components shall use the materiality definition. However, the Army, Navy, and Air Force stated that not all systems on their critical systems list would be considered critical according to the materiality definition. For example, a system may be considered critical according to the materiality definition. However, a system that provides data to the critical system may not meet the materiality definition. Using the materiality definition to determine criticality, DoD Components may fail to identify systems that could impact the accuracy and reliability of data reported on the financial statements. Therefore, systems not deemed critical according to the materiality guidance may not be subjected to the DoD Compliance Process. Subsequently, OUSD (C) personnel stated that based on the outcome of the DoD enterprise architecture efforts, any system providing data to the financial statements should be mapped and considered reportable. OUSD (C) should meet collectively with DoD Components to clarify the critical definition issues that continue throughout the DoD.

**Blue Book.** The DoD Compliance Process states that the Blue Book shall be the primary guidance that a system is evaluated against prior to entering the next phase. Although we did not perform a complete assessment of the Blue Book, we did determine that it lacks sufficient guidance to ensure compliance in the areas of data standardization and general controls. A DoD Component that certifies compliance using the Blue Book requirements may not have performed a sufficient review to determine whether its systems substantially meets the applicable requirements.

**Data standardization.** The Blue Book does not adequately reference sufficient guidance to ensure data standardization requirements will be assessed for DoD financial management systems. OMB Circular A-127 requires that each agency establish and maintain a single, integrated financial management system. For a system to be integrated, it must provide standard data classifications (definitions and formats) and common processes used for similar transactions. An integrated system must also provide a design that

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eliminates unnecessary duplication of transaction entry. DoD systems often require duplicative reentry, crosswalks, and manual workarounds. Although the Blue Book cites OMB Circular A-127, it is not likely that system owners will perform a sufficient review unless more definitive requirements are detailed in the Blue Book. The Blue Book should clearly define standard data classifications, common processes, and unnecessary duplication to ensure that system owners comply with the requirements. The DoD requested \$100 million of FY 2002 funds for the USD (C) to develop an enterprise architecture and define standard data requirements. DFAS should update the Blue Book to reference those standards, once the USD (C) approves the standard data requirements.

**General Controls.** The Blue Book lacks sufficient and comprehensive coverage of general controls. General controls are management controls that apply to the overall computer operations of an agency. Examples of general controls include, but are not limited to:

- establishing an overall security program,
- implementing procedures for changing software,
- separating duties that could allow unauthorized activity, and
- establishing controls to monitor use of software.

Some of those controls are referenced in OMB Circular A-130 and DoD Instruction 5200.40<sup>7</sup>. Although the Blue Book cites guidance for some general controls, the guidance is minimal and may not ensure that those controls are operating effectively and ensuring the reliability of data. The Blue Book should provide coverage of general controls to ensure that system owners perform a sufficient review and reference the applicable Federal and DoD requirements. In addition, some general controls are not under the purview of system owners and will require coordination among the DoD Components and OUSD (C). The USD (C) is aware of those deficiencies, and DFAS plans to incorporate additional general controls in the next version of the Blue Book. However, because the USD (C) lacked the authority to effectively implement the DoD Compliance Process, DoD Components may still not perform a thorough review.

**Compliance of JFMIP Certified Software.** The JFMIP publishes the Core Financial System Requirements (core requirements) that serve as the basis to test commercial financial software. The DoD Compliance Process states that any system that is JFMIP approved may be placed in the Compliance phase. However, JFMIP personnel stated that approved commercial software does not ensure compliance because JFMIP core requirements do not cover all Federal financial management systems requirements that may be applicable to a system. A DoD Component purchasing commercial software with inventory, property or travel functions must meet additional requirements, which are not covered in the JFMIP core requirements testing. JFMIP also tests commercial software capabilities in an ideal environment and does not test how the commercial software is installed. For example, an agency may install a JFMIP approved

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<sup>7</sup>DoD Information Technology Security Certification and Accreditation Process, December 30, 1997.

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system with U.S. Standard General Ledger capability, but may not set up the general ledger in compliance with the U.S. Standard General Ledger. In addition, JFMIP will test a system's capability to interface correctly with another system; however, once installed, the interface may not be in compliance. As a result, DoD may incorrectly certify JFMIP approved systems as compliant with Federal financial management systems requirements. DoD should modify its guidance to ensure that JFMIP approved systems are installed correctly and compliance with requirements is adequately documented. This modification should ensure compliance with applicable Federal financial management system requirements not covered during JFMIP testing. Until DoD modifies its guidance, DoD should not report JFMIP approved software as compliant.

## **Conclusion**

This report identifies DoD Compliance Process issues that should be addressed in the development and implementation of the Authorization Act Compliance Process. The DoD Compliance Process goal is to achieve reliable financial management information to DoD decision makers in a timely manner and ensure compliance with applicable Federal financial management systems requirements. However, the USD (C) did not have sufficient authority and should consider preparing a DoD issuance to ensure that DoD Components implement the DoD Compliance Process. The DoD is also addressing a conglomeration of issues that will affect the DoD Compliance Process; therefore, the DoD Compliance Process should proceed systematically. Once those initiatives are addressed, the DoD Compliance Process can be reevaluated and restructured to be in alignment with the outcome. In addition, the USD (C) should implement the mechanisms necessary to monitor DoD Components' progress and should reevaluate the guidance to ensure an adequate review of financial management systems.

## **Recommendations, Management Comments, and Audit Response**

### **A. We recommend that the Under Secretary of Defense (Comptroller):**

**1. Institutionalize the Authorization Act Compliance Process in an appropriate DoD issuance in order to provide the Under Secretary of Defense (Comptroller) explicit authority to ensure that the Military Departments and Defense agencies effectively implement the legislative provisions.**

**Management Comments.** The Acting Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) concurred and will incorporate this recommendation into the revised compliance process upon completion of their enterprise architecture efforts. The Acting Deputy also stated that, through the use of an independent contractor, it is developing a financial management enterprise architecture that will serve as the DoD blueprint for effective financial management reform. Because the scope of the enterprise architecture

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development is agency-wide, he believes the lessons learned from the development effort will be substantial. Furthermore, the benefits resulting from the enterprise architecture lessons learned justifies a delay in revising the current compliance process. The development of the enterprise architecture is expected to be completed by February 2003.

**2. Implement a systems database to monitor the progress of the Military Departments and Defense agencies and ensure that the Military Departments and Defense agencies have access to system information not in their purview.**

**Management Comments.** The Acting Deputy concurred and stated that during the initial stages of creating the financial management enterprise architecture, the contractor will develop a data repository containing an inventory of financial management systems, feeder systems, commercial systems, and their respective interfaces through their enterprise architecture efforts. This data repository will be used for future DoD financial management systems compliance efforts.

**3. Establish the language and scope for systems to certify compliance based on the applicable requirements identified in the latest edition of the Defense Finance and Accounting Service, "A Guide to Federal Requirements for Financial Management Systems" and other relevant requirements.**

**Management Comments.** The Acting Deputy concurred and will require system owners to certify compliance with "all Federal and DoD requirements that may be relevant to a particular financial management system" as part of the revised compliance process. The revised compliance process will also specify that a system owner must consider external data flows and interfaces when certifying compliance.

**4. Provide a clear definition of a critical financial management system.**

**Management Comments.** The Acting Deputy partially concurred and stated that defining criticality is the responsibility of the Office of Management and Budget. However, the Under Secretary of Defense (Comptroller) will work with the Office of Management and Budget to develop a more concise definition of critical. This definition of critical will be included in the revised compliance process.

**Audit Response.** Although the Acting Deputy partially concurred with the recommendation, their proposed actions satisfy the intent of the recommendation. No further comments are required.

**5. Establish guidance to ensure Joint Financial Management Improvement Program approved systems are installed correctly and are adequately documented to comply with applicable Federal and DoD requirements.**

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**Management Comments.** The Acting Deputy concurred and will issue commercial off-the-shelf software implementation guidance after the completion of the enterprise architecture efforts. The commercial off-the-shelf software guidance will include software approved by the Joint Financial Management Improvement Program.

**B. We recommend that the Director, Defense Finance and Accounting Service amend the Defense Finance and Accounting Service, “A Guide to Federal Requirements for Financial Management Systems” to include detailed coverage of data standardization and general controls.**

**Management Comments.** The Director of Systems Integration, Defense Finance and Accounting Service, stated that version four of the Defense Finance and Accounting Service, “A Guide to Federal Requirements for Financial Management Systems” (Blue Book) will reference the DoD Data Dictionary System. In addition, future versions of the Blue Book will include approved data standards developed through the Under Secretary of Defense (Comptroller) enterprise architecture effort. The Defense Finance and Accounting Service plans to add additional references to automated systems general controls to version four of the Blue Book. Additionally, the Defense Finance and Accounting Service is considering developing a supplemental general control guide for the Blue Book.

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## Appendix A. Audit Process

### Scope

**Work performed.** We evaluated the DoD Compliance Process, established in the USD (C) January 5, 2001, memorandum and reviewed its effectiveness of achieving compliance with Federal financial management system requirements. We reviewed OMB, JFMIP, DoD, and other requirements as applicable to the DoD Compliance Process. We conducted a limited review of the Blue Book version 3, June 2001, to identify specific areas where the coverage of Federal financial management system requirements may be insufficient. However, we did not perform a complete assessment of Blue Book coverage of Federal financial management system requirements.

We interviewed personnel from the OUSD (C), Business Policy Directorate on the status of work performed for the DoD Compliance Process and other DoD financial management initiatives. We also interviewed personnel from the Office of the Assistant Secretary of the Army (Financial Management) and the Army Audit Agency and obtained information on data mapping and guidance. We obtained documentation on Army's preliminary critical inventory list. We met with personnel from the Office of Assistant Secretary of the Navy (Financial Management) and the Naval Audit Service and obtained documentation on their guidance and process. In addition, we obtained information on the status of data mapping, critical inventory list compilation, and the implementation of the DoD Compliance Process.

We interviewed personnel from the Office of Assistant Secretary of the Air Force (Financial Management) and the Air Force Audit Agency. We obtained documentation on guidance, data mapping, an inventory list that included 50 systems, the status of individual systems, and the Air Force compliance process. We interviewed personnel from the DFAS, Systems Integration Directorate and obtained documentation on critical inventory lists which included 23 systems, the DFAS process, and guidance. In addition, we obtained information on data mapping. We interviewed DLA personnel and obtained documentation on the proposed strategies and information on the current status of their implementation of the DoD Compliance Process.

We selected a sample of 12 ODOs based on DoD reporting requirements, ownership of critical systems per the FMIP, and auditor judgment. We conducted telephone and e-mail correspondence with a selection of ODOs regarding their awareness and whether they had initiated implementation of the DoD Compliance Process. Three DoD Intelligence Agencies were included among our sample of 12 ODOs. Two agencies were not included in the report because the information was classified. For a list of the ODOs outside the DoD Intelligence community contacted, see Appendix C.

**Limitations to Scope.** We did not review the management control program related to the overall audit objective because DoD recognized that the



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categorization of its financial management systems was a systemic control weakness in the FY 2000 Annual Statement of Assurance. The FY 2000 DoD Statement of Assurance stated the cause of this problem is that DoD accounting, finance, and feeder systems do not fully comply with Federal financial management systems requirements.

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

## **Methodology**

**Use of Computer Processed Data.** We did not rely on computer-processed data to perform this audit.

**Audit Type, Dates, and Standards.** We performed this financial-related audit from March 2001 through November 2001 in accordance with generally accepted government auditing standards.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD, OMB, and JFMIP. Further details are available upon request.

## **Prior Coverage**

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews relating to compliance with Federal financial management requirements. Unrestricted General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>. Unrestricted Inspector General, DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil/audits/reports>.

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## Appendix B. The DoD Compliance Process

The DoD Compliance Process provides guidance to ensure that critical accounting, finance, and feeder systems are compliant with applicable Federal financial management systems requirements. Details regarding the five phases of the DoD Compliance Process and the applicable Blue Book exit criteria follow below.

**Awareness.** The Awareness phase promotes acknowledgement and participation in the DoD Compliance Process across DoD. A DoD Component should map the flow of its financial information from point of original entry to its presentation on the annual financial statements. To exit the Awareness phase, a DoD Component must identify and prioritize critical accounting, finance, and feeder systems and categorize each system by function in accordance with the Blue Book.

**Evaluation.** The Evaluation phase requires the DoD Component to:

- define the compliance problem(s),
- decide the appropriate strategies to overcome the problem(s), and
- establish a plan to apply the resources to ensure compliance.

To exit the Evaluation phase, a system owner must determine system deficiencies according to the Blue Book and develop a corrective action and funding plan to correct each deficiency.

**Renovation.** The Renovation phase implements the DoD Component corrective action plans and conducts reviews necessary to bring non-compliant systems into compliance. To exit the Renovation phase, the DoD Component shall certify that the system(s) complies with all identified requirements according to the Blue Book. The Council, after receiving certification that corrective actions applicable to a system have been implemented, will request the Inspector General, DoD, to validate the certification.

**Validation.** The Validation phase ensures that system problems are remedied and that the system is compliant. Validations, in the form of audits or acceptable reviews, will be conducted using a standard methodology promulgated by the Inspector General, DoD. To exit the Validation phase, a system owner shall obtain validation that the system complies with applicable compliance factors according to the Blue Book from:

- the Inspector General, DoD,
- a public accounting or consulting firm, or
- the respective Military Department audit agency.

**Compliance.** The DoD Compliance phase ensures that required documentation is available and maintained for those systems, business areas, and reporting entities that have been determined compliant.

## Appendix C. Other Defense Organizations Status

ODO Contacted	FY 2000 Critical Systems/Initiatives	Aware of Compliance Process	Initiated the Compliance Process
Defense Advanced Research Projects Agency	0	No	No
Defense Commissary Agency	2	Yes	Yes*
Defense Contract Management Agency	1	Yes	No
Defense Information Systems Agency	1	Yes	No
Defense Security Cooperation Agency	2	Yes	No
Defense Threat Reduction Agency	1	Yes	No
DoD Human Resources Activity	1	No	No
Missile Defense Agency	0	No	No
Washington Headquarters Service	3	No	No

\*Personnel from the Defense Commissary Agency stated that the DoD Compliance Process has been initiated; however, minimal work has been performed.

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology and Logistics  
Under Secretary of Defense (Comptroller)  
    Deputy Chief Financial Officer  
    Deputy Comptroller (Program/Budget)  
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army  
    Inspector General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force  
    Inspector General, Department of the Air Force

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## **Other Defense Organizations**

Director, Defense Advanced Research Projects Agency  
Director, Defense Commissary Agency  
Director, Defense Contract Management Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Information Systems Agency  
Director, Defense Logistics Agency  
Director, Defense Security Cooperation Agency  
Director, Defense Threat Reduction Agency  
Director, DoD Human Resources Activity  
Director, Missile Defense Agency  
Director, National Imagery and Mapping Agency  
Director, Washington Headquarters Service

## **Non-Defense Federal Organization**

Office of Management and Budget

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

## Under Secretary of Defense (Comptroller) Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

JAN 10 2002

### MEMORANDUM FOR ACTING DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Draft Audit Report, "Audit of DoD Financial and Feeder Systems Compliance  
Process" [Project No. D2001FG-0085, December 7, 2001]

This responds to your transmittal memorandum for the subject draft audit report in which you requested comments concerning recommendations A.1,2,3, 4, and 5 presented in the draft report. The Department of Defense's forthcoming financial management enterprise architecture will be the basis for detailed actions and milestones for our financial management modernization efforts and future initiatives. The comments to the recommendations in the draft report are attached.

This office's point of contact for this matter is Mr. David Alekson. He may be reached by e-mail: [aleksond@osd.pentagon.mil](mailto:aleksond@osd.pentagon.mil) or by telephone at (703) 692-5004.

A handwritten signature in black ink, appearing to read "De W. Ritchie".

De W. Ritchie  
Acting Deputy Chief Financial Officer

Attachment

**OFFICE OF THE INSPECTOR GENERAL DRAFT AUDIT REPORT  
"AUDIT OF DoD FINANCIAL AND FEEDER SYSTEMS COMPLIANCE PROCESS"  
DATED DECEMBER 7, 2001  
(PROJECT NO. D-2001FG-0085)**

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**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
AND  
DEFENSE FINANCE AND ACCOUNTING SERVICE  
COMMENTS ON RECOMMENDATIONS**

\*\*\*\*\*

**Recommendation A.1:** That the Under Secretary of Defense (Comptroller) institutionalize the S.1438 compliance process in an appropriate DoD issuance in order to provide the Under Secretary of Defense (Comptroller) explicit authority to ensure that the Military Departments and Defense agencies effectively implement the legislative provisions.

**OUSD(C) Comments:** We concur. To help ensure the implementation of financial management systems that comply with applicable statutory requirements, the Office of the Under Secretary of Defense (Comptroller) OUSD(C)--through the use of an independent contractor--is developing a financial management enterprise architecture that will serve as the Department's "blueprint" for effective financial management reform. The enterprise architecture will include an "as is" financial management systems inventory (much of which has already been developed by OUSD(C) personnel) and environment, a "to be" environment of future systems, and a transition plan with defined milestones and actions for achieving the ultimate "to be" environment. The President's budget for fiscal year 2002 includes \$100 million for the development of the financial management enterprise architecture. The development of the enterprise architecture is expected to be complete by February 2003.

The current instruction for the financial and feeder system compliance process will be revised to be consistent with the results of the enterprise architecture and to comply with S.1423. Because the scope for the development of the enterprise architecture is agency-wide, we believe the lessons that will be learned from the development effort will be substantial. The possibility of gaining substantial benefits from any lessons learned in such an all-encompassing development effort justifies a delay in revising the current compliance process. Thus, the compliance process policy will be formalized to comply with S.1438 and the recommendation in the draft audit report when the financial management enterprise architecture is finished--by approximately February 2003.

**Recommendation A.2:** That the Under Secretary of Defense (Comptroller) implement a systems database to monitor the progress of the Military Departments and Defense agencies and ensure the Military Departments and Defense agencies have access to system information not in their purview.

**OUSDC(C) Comments:** We concur. During the initial stages of creating the financial management enterprise architecture, the contractor will develop an inventory that identifies all financial management systems, business (feeder) systems, and contractor and commercial systems which may be pertinent to the creation of the enterprise architecture. The inventory will also identify interrelationships (e.g., interfaces) between systems and the compliance status of the systems in the inventory. The inventory information will be housed in a data repository that can be used for modeling and simulating focused architectural views. All DoD components and agencies will have access to the repository and its associated modeling tool sets. The data repository will be the database of record for future efforts to make DoD financial management systems compliant.

**Recommendation A.3:** That the Under Secretary of Defense (Comptroller) establish the language and scope for systems to certify compliance based on the applicable requirements identified in the latest edition of the Defense Finance and Accounting Service' "A Guide to Federal Requirements for Financial Management Systems."

**OUSDC(C) Comments:** We concur. The Comptroller recognizes the ambiguities inherent in the current guidance regarding the compliance process. Future guidance will specify that systems will be certified only when they incorporate all Federal and DoD requirements that may be relevant to a particular financial management system – regardless of whether those requirements are found in the Bluebook or are located elsewhere. Additionally, the revised guidance will indicate that any certification of compliance must consider and remark upon feeder systems and data flows external to the specific systems application being reviewed for compliance. Revised guidance for certification will be published upon completion of the financial management enterprise architecture.

**Recommendation A.4:** That the Under Secretary of Defense (Comptroller) provide a clear definition of a critical financial management system.

**OUSDC(C) Comments:** We partially concur. The definitive classifier of what constitutes a critical financial management system should be the Office of Management and Budget (OMB). In the past, OMB has not provided a clear and concise definition of "criticality" with regard to financial management systems. According, DoD has developed its own definition. We recognize the ambiguities in the current DoD definition and will work with OMB to establish a more concise description of a critical financial management system. We will include an amended definition in the next version of the *DoD Financial and Feeder Compliance Process*.

**Recommendation A.5:** That the Under Secretary of Defense (Comptroller) establish guidance to ensure that Joint Financial Management Improvement Program approved systems are installed correctly and are adequately documented to comply with applicable Federal and DoD requirements.

**OUSDC(C) Comments:** We concur. As stated, we will issue revised formal guidance regarding the financial and feeder systems compliance process upon completion of the financial management enterprise architecture. At that time, we will also disseminate guidance that discusses the implementation of Commercial Off the Shelf Software, including software that has



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been approved by the Joint Financial Management Improvement Program. The publication of revised guidance pertaining to the compliance process for financial management systems will be postponed until the development of the financial management enterprise architecture. We hope to update and improve all guidance pertaining to the compliance process by using any lessons that can be learned from the development of the enterprise architecture.

3 of 3

# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

JAN - 9 2002

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DoD

SUBJECT: Audit Report on DoD Financial and Feeder Systems Compliance Process (Project  
No. D2001FG-0085)

The draft report on the subject audit, dated December 7, 2001, contains one recommendation for the Defense Finance and Accounting Service (DFAS). This recommendation reads, "We recommend that the Director, Defense Finance and Accounting Service amend the Defense Finance and Accounting Service, 'A Guide to Federal Requirements for Financial Management Systems' [Blue Book] to include detailed coverage of data standardization and general controls."

The most current version (v.3) of the Blue Book references the Standard Fiscal Code. The next version (v.4) will reference the DoD Data Dictionary System. Additionally, we will amend future versions of the Blue Book to reference compliance with any approved data standards developed by the Financial Management Enterprise Architecture effort.

As stated in the audit report, we are planning to incorporate additional references to automated systems general controls in the next version (v.4) of the Blue Book. For this, we will research the references listed in DFAS 8000.1 (DFAS Information Assurance Policy), Part G, Chapter 1, Paragraph 6, which includes OMB Circular A-130 and DoD instruction 5200.40. We are also assessing the possibility of developing a companion guide to the Blue Book covering general controls.

Thank you for the opportunity to comment on this draft audit report. The DFAS point of contact for this is Lt Col T. Michael Trout, telephone 703-607-5069, e-mail theodore.trout@dfas.mil.

*Kathleen D. Noe*

Kathleen D. Noe  
Director, Systems Integration

## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personal of the Office of the Inspector General, DoD, who contributed to the report, are listed below.

Paul J. Granetto  
Kimberly A. Caprio  
Kathryn M. Truex  
Michael Perkins  
Jacqueline L. Wicecarver  
A. Dahnelle Alexander  
Scott S. Brittingham  
Margaret R. Westfall  
Clara Li  
Stephen G. Wynne